

98-84374-9

Hichborn, C. S.

The financial problem

Augusta

1895

98-84374-9
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

332.42
Z Highborn, C S
v.6 The financial problem; address before the State
board of trade at Portland, Maine, March 28, 1895.
Augusta, Badger, 1895.
24 p. 22¹/₂ cm.

Vol. of pamphlets.

Only Ed

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm

REDUCTION RATIO: 11:1

IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 3-31-98

INITIALS: BD

TRACKING # : 32250

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.



Nov 4

332 4.2

2

46

THE FINANCIAL
PROBLEM.

LIBRARY OF
THE REFORM CLUB
SOUND CURRENCY COMMITTEE,
62 William St., New York.

THE FINANCIAL PROBLEM.

ADDRESS OF

C. S. HICHBORN,
(Cashier First National Bank, Augusta),

BEFORE THE

STATE BOARD OF TRADE,

AT PORTLAND, MAINE,

MARCH 28, 1895.

PUBLISHED BY REQUEST OF STATE BOARD OF TRADE.

1895.
BADGER & MANLEY, PRINTERS,
AUGUSTA, MAINE.

THE FINANCIAL PROBLEM.

MR. PRESIDENT AND GENTLEMEN :

If I were thought able to settle the questions which are pressing themselves upon the attention of financiers, to the satisfaction of all concerned, I probably should not be here to-day : an anxious people, long before this, would have called me to higher duties. But, *because* the great American people do not recognize me as the financial Moses called to lead his followers to the land of promise ; *because* they seem inclined to believe there are others possessing wisdom superior to mine, I am left in this comparative obscurity,—forced "to blush unseen and waste" my "sweetness on the desert air."

I am comforted, however, (because misery loves company) by the belief that not all those who *have* essayed to be leaders have, in the day of trial, proved themselves *worthy* of such recognition. "Napoleons of finance" have sped their meteoric flight from Corsica to St. Helena : Arabian Nights visions and will-o'-the-wisp theories have enlisted in their advocacy the sympathies and energies of marvelous mental gymnasts : organized selfishness has assailed the laws of nature and of commerce till "amid the dust and blood of the arena" the contestants themselves stand bewildered and amazed : the pathway to prosperity up some other than the true and trusty way of National, as of individual, honor, has been made alluring by the flaming torches of phosphorescent theories,—until the deceived and misguided people may well call a halt and demand of their leaders a return to the teachings and the practices found true and robbed of dross, in the crucible of experience.

It is within the scope of neither my purpose nor the time at my command, to give a careful analysis of all the various movements inaugurated, and laws enacted, in regard to our financial system. I will not attempt it. Neither shall I undertake to demonstrate how you can accumulate, so long as your expenditures exceed your income. I have discovered no royal road to wealth. I can recommend no way by which you can get a dollar, except you earn it. I propose to call your attention to *some* of the evils of both existing and proposed legislation, with the hope that this Board may, if occasion hereafter arises, be ready to place itself squarely on record against some of the vagaries of the times, and in favor of the maintenance of the integrity of the financial policy of this Government.

I doubt if there exists, anywhere, under any government, a more "crazy-quilt" monetary system than ours. It is covered with barnacles, it is filled with inconsistencies, it is fraught with dangers.

The exigencies of the War and of the settling-up period following it, produced conditions and gave sanction to theories whose effect, in times of peace we find it extremely difficult to overcome.

From time to time Congress has *attempted* to meet these questions and force them to a satisfactory settlement; with the effect of demonstrating, generally, its own utter incapacity, often, a total disregard of the fundamental principles of finance, —if not of truth and justice,— and always, a profound knowledge of, and sensitive regard for, the political fortunes of its individual members.

We have, now, no less than nine different kinds of money (using the word money according to its ordinary acceptance) no two of which are exactly alike, subject to the same laws as to redemption, or holding the same rank in the estimation of the people. I need not speak of them all; I shall touch upon the most important only.

To begin with, we have in circulation three hundred and forty-six millions of non-interest-bearing demand notes,—“greenbacks,” they are commonly called—the absolute promise of this government to pay so many dollars to the bearer, on demand. Yet what has the Treasurer with which to pay this three hundred and forty-six millions? He has a stock of gold,—the gold reserve, so called,—varying, for the past two years, from one hundred and fifteen down to forty-one millions, liable to, and suffering from, attacks from which it cannot escape, and which would have been wiped entirely out of existence, long before this, but for the saving clause of the Resumption Act passed twenty years ago.

Under this act, the Treasurer was empowered to sell, “at not less than par in coin,” any of the bonds authorized by the re-funding act of 1870,—to wit, 4 per cent. 30 year, 4 1-2 per cent. 15 year, or 5 per cent. 10 year bonds,—whenever necessary so to do to provide the coin (which then meant gold) requisite for the redemption of the legal tender notes. Acting under authority thus given the Treasurer has sold bonds, during the past year, to the amount of one hundred and sixty-five millions of dollars,—the first fifty millions on a basis of about two and three-quarters per cent., the second fifty millions about two and seven-eighths per cent. and the last sixty-five millions three and three-quarters per cent., or nearly one per cent. higher than can be realized on the bonds of the good old State of Maine. Pride for the State,—humiliation for the Nation! Mark well the creative policies!

The gold reserve is not fixed by statute. It comes about from the home-spun, old-fashioned, slow-going idea that a man ought to have something with which to pay his debts; that Uncle Sam's non-interest bearing demand notes are likely to be presented any day, and that it is therefore wise to have on hand something with which to meet these calls; and it being thought desirable to have one hundred millions with which to pay *three hundred and forty-six* millions (!) that amount has, by

common consent, been deemed the minimum to which the reserve ought to be allowed to fall. *Whatever causes operated to first produce the recent infraction of the reserve*, the inevitable developments which followed, and must ever follow, such breach, and the distress and anxiety which its lower level has caused during the past few months, have made deeper impress upon your minds than words of mine can possibly make. Think, Gentlemen, of a man offering his demand notes for thirty-four thousand dollars, for instance, and later advertising and showing by his statement that he had only from five to ten thousand with which to pay them! Upon what basis of credit would those notes be considered good? "O," somebody says, "the greenbacks have the whole power of taxation, of the government, behind them." Admitted; but what does power to tax amount to, towards satisfying the emergency of a demand note, presented for payment whenever, and as often as, the caprice of man may dictate?

Gentlemen, the "greenback" currency is an anomaly; it is an issue of notes which bear no interest, which the maker admits he cannot pay according to their promise, yet which the people have accepted,—with commendable patriotism but with scarcely a claim to ordinary business caution; (will any banker present tell me if he knows of an institution which will discount a piece of single-name paper submitted with these conditions? I await an offer); it is a menace, too, because of the urgency and frequency with which its redemption may be demanded, both of which vary inversely to the ability of the Treasury to meet its obligations; what *was* a blessing has been transformed into a curse; it is a debt which though paid a thousand times over is yet never reduced; its use in time of peace is contrary to the settled conviction of financiers throughout the world; it performed a great service in a day of need, but its mission is fulfilled; its place now is in the memorial hall of the nation, with the musket and the battle flag.

Let me speak, in passing, of one of the inconsistencies (I

had better said absurdities), of our system. Gold is full legal tender; the gold certificate, *issued for gold actually deposited* with, and *held* by, the Treasurer, is *not*. A *Greenback*, behind which the government has less than *one-sixth* of a dollar, it may be, in gold, is *legal tender*, a *gold certificate*, behind which the Government actually holds the *full gold dollar*, is *not*; and a bill has recently passed the House providing that after July 1, 1895, gold certificates shall not be received for customs dues, nor counted as part of the lawful reserve of any national Bank. A National Bank bill is legal tender for a debt which you owe a bank; it is *not* legal tender for a debt which a bank owes you. Is absurdity too strong a term?

You will expect me to speak upon the silver question, and I am glad of the opportunity. There is no part of our financial discussion which conceals (?) more humbuggery than this. Regardless of increase in tilled acreage, unmindful of the marvelous development in mechanical appliances, forgetting the great improvement in transportation facilities, all the evils in the business world are laid, by the silver men, to the "demonetization" of silver. Why, gentlemen, this occurred twenty-two years ago! Our years of greatest prosperity have come since then. It had about as much to do with existing prices as sun spots have to do with the curl of your dog's tail. Let us investigate this silver question and see upon what basis rest the extravagant claims of the silver interests. A man may pay a debt due to the Government in silver dollars, if he pleases; the Treasurer is permitted to exercise *no choice* whatever; he *must* accept them; but with a coin certificate in his hand, for which he sold the Treasurer silver, this same man may demand its redemption in gold, and the Treasurer now *durres* not exercise his choice; he pays the gold; the result thereof can easily be understood, but the gravity of the case warrants me in speaking upon it at some length.

The silver dollar is *actually worth about fifty cents*; that is, in the markets of the world it is worth, bullion value, but five-

tenths as much as a gold dollar. During the fiscal year ending June 30, 1894, the *highest* bullion value of a silver dollar was *only* 59.13 cents, while the *lowest* was 45.77 cents. Since that date it has fluctuated, in value, from 48 to 51 cents. Yet we have been *persisting* in an endeavor to hold these two dollars *at a parity, by legislation*. And while that part of the law of 1890 which declared it to be the policy of this Government to maintain that parity, was the only thing which saved us from the overwhelming disaster which would have come upon us, in the memorable summer of 1893 had the *disparity* been established by a discrimination between the two metals, yet the time came when we learned that that which was our strength in that crisis, had come to be a source of direful weakness. The four years following the close of the fiscal year 1890, saw a loss in Treasury gold of one hundred and thirty millions of dollars. The enormous loss in revenues rendered the Treasury Department unable to withstand the attacks made upon it. The accumulating and constantly depreciating mass of silver lay stored in the vaults of the Treasury, while the coin certificates which represented it, joining hands with the greenbacks, enforced their ceaseless demand upon the Treasurer for gold; and he dared not say "no" to their demands; for, the moment he did so, the *disparity* would have been established, we should have had on our hands six hundred and sixteen millions of dollars in discredited coin (if the subsidiary be included), and a time of distress would have come upon us whose effect no man can measure.

Our little stock of gold, therefore, must guarantee not only our silver coin indirectly, but *directly* the three hundred and forty-six millions of greenbacks and the certificates issued in the purchase of silver besides, a total of nearly five hundred millions. And, since these certificates and the greenbacks may be, and *are, reissued, they speedily return and reiterate their demand* for gold; and so may continue, with deathly monotony, till our rapidly vanishing stock of the precious metal is ex-

hausted, and we stand discredited before the nations of the world; having, in the meantime glutted the market with issues of bonds at an ever-increasing rate of interest, in the frantic endeavor to save our honor. Can idioes go farther?

Gentlemen, it is as futile for this Government to undertake to maintain the parity of gold and silver by legislative enactment, as to change the location of the North star. How long International Bimetallism might maintain a fictitious value is an unsolved problem. Not long, it seems to me. Nor do I believe so unpromising an experiment likely to be tried.

The laws of trade and commerce are not statutory: they are as immutable and inexorable as the laws of nature; they *are* the result of natural demands and natural forces.

Your statutes may regulate debt-paying power, but they can never establish value.

It is as much in harmony with the laws of trade to enact that a bushel of potatoes shall equal, in value, a peck of diamonds, as that sixteen ounces of silver *shall* be equal, in value, to one ounce of gold.

True, you may determine by legislation that within the jurisdiction of your statute, he who owes a peck of diamonds may discharge that debt by the tender of a bushel of potatoes, but he who receives the potatoes must perforce exchange them within this same jurisdiction, or himself suffer irreparable loss. He has parted with full, *actual*, world-over value, and, in its stead, he has that which represents little save local statute power, and hence is of small account outside the jurisdiction of that statute. How long, then, will men continue to make contracts leaving it to the debtor to determine the value of the product in which such debt shall be paid?

The law of self interest takes care of that, and to-day you find the gold clause in all high grade bonds and in all long time contracts, many of the latter even exacting that payment shall be made by weight and not by tale; and at the time of the recent issue of Government bonds, purchasers offered to

take ten year *gold* bonds at three-quarters of one per cent, lower rate than the thirty year "coin" bonds, which *might* be paid in *silver*; and the last Congress—that incomparable aggregation of incompetence and cupidity,—refusing to substitute the word "gold" in place of the word "coin," compelled us to pay the higher rate. This little game of silver and politics cost us sixteen millions of dollars.

There is a legitimate use to which we may put a certain amount of silver without endangering the stability of our system, and for which purpose, only, should it be used. And *for these uses* I would accept it, not to compromise with the demands of the silver men—the most powerful and aggressive combination this country ever knew, except the old slave power—but because it fills certain requirements and conditions of trade, and *thus* employed the amount can never be sufficiently large to cut any appreciable figure. It is entirely satisfactory, I think desirable, as subsidiary coin, and it might, perhaps, be safely used to supply the requirements of such few as prefer silver dollars to bills of the lower denominations. The burden of caring for a circulation of small bills is not relished by bank officers, and since the passage of the Resumption Act banks are not permitted to issue them. They are a necessity, and this necessity must be met; but it should not be met by the issuing of certificates based upon 50 cent dollars. There are now in actual circulation in ones and twos, in round numbers, one half million in National Bank notes, six millions in legal tenders, twenty-six millions in treasury notes of 1890, and thirty-nine millions in Silver Certificates, a total of about seventy-one million. Adding the fifty-one millions of silver dollars, we have a total of one hundred and twenty-two millions. Adding to this the fifty-eight millions in subsidiary coin, gives a grand total of one hundred and eighty millions of dollars, in small money. One hundred and nine millions, you see, are in actual silver, in dollars and subsidiary coin. *This amount, in this form, would meet neces-*

sities of business and therefore, because of its absorption and general distribution, might prove no detriment to our financial system. Further issues of small bills should be in form of bank notes and gold certificates. If we are to use silver coin, the number of grains in each should be increased, so that the various subsidiary coins should represent nearer the actual value than they would if coined under existing law, and the silver dollar be made the equal of the gold, upon an equitable estimate of its actual value. This could not, of course, be definitely fixed; it varies almost daily. It is because of the constant fluctuation in value that silver cannot be accepted as a standard, and that I deprecate its use, save in this subordinate position, to the limit amount, (which the increase in bulk would still farther reduce), and for the purposes, which I have named. Indeed in no other way *would* it be used, were it not the declared purpose of this Government to maintain its parity with gold. This effort is too exhausting; it should be abandoned, and the excess of silver over what I have named should be retired. "But," it is said, "this means loss to the Government." Yes; and this loss is the practical summing up of all arguments against the use of silver. Why! the world's product of silver in 1873 amounted, in U. S. *coinage* value, to \$81,800,000, with an *actual* value of \$82,120,000, while in 1893, a product of \$209,165,000, *coinage* value, had an *actual commercial value of only* \$126,185,000. Men talk of a *double* standard of gold and silver. Gentlemen, there can be no such thing as a "double standard." Somewhere there there must be the unit; and the judgment of the great world of commerce has declared that standard, that unit of value, to be the ounce of gold. Against that verdict the voice of your Statute cries out in vain; it is as impotent as the Pope's Bull against the comet.

The talk of the silver men about the "demonetization of silver" by the act of 1873 is calculated to mislead, while at the same time, (to my mind) it exposes the inherent weakness of

their cause. The act of 1873 *discontinued the coinage* of the silver dollar. It omitted it, together with the silver five and three cent pieces, from the list of pieces authorized to be coined, but it *entered no decree which the commercial world had not already registered*. It had become "demonetized," if that is what you please to call it, and the act of 1873 simply recorded the fact. It had gone out of circulation; out of the people's mind as American money.

Nor can it be claimed that this act had any serious effect upon the *coinage*; for up to that time the total coinage of this "dollar of our daddies" amounted to only a trifle over eight millions of dollars. *Practically*, you see, it *had never been* coined. Why was it not in circulation? The answer is plain; it was because, owing to the relatively small output of silver, it was of greater *commercial* value than, than represented by the *coinage* value; and, is always the case, the more valuable metal disappeared. In 1834, when the number of grains in the gold dollar was reduced, the silver dollar was made worth \$1.038 and it remained at a premium over the gold dollar for years, and until there began the *extraordinary development of silver mines all over the world*, which eventually took from it half its commercial value. *This*, and not the omission from the coinage list, is responsible for the decline.

The act of 1878 provided for compulsory purchase of from two to four million dollar's worth of silver bullion every month, and its coinage into dollars of four hundred twelve and a half grains, nine hundred thousandths fine. It was not the demand of the people, but the *demands of this act*, (passed over the President's veto,) and the act of 1890, which raised the amount coined in the succeeding fifteen years to nearly four hundred and twenty millions. What has been the result? Did this enforced market raise the value or price of silver? Did a bolstering up Statute help the matter? Not at all. On the contrary, its decline has been constant from almost

the day of the passage of these acts. And to-day we have in circulation, not only four hundred and twenty millions of dollars actually worth only fifty cents on the dollar, and one hundred and fifty-two millions of Treasury notes given in purchase of silver, on which the holders may demand gold, but upon this very bullion which the Treasury holds, the actual loss by decline in value, since its purchase, amounts to scores of millions of dollars. Upon the three hundred and eight millions of silver purchased under the act of 1878 the loss, at present price, amounts to one hundred and twenty-two millions; upon the one hundred and twenty-six millions purchased under the act of 1890 the loss is forty-eight millions; a total shrinkage, on account of our silver purchases since 1878, of one hundred and seventy millions of dollars.

The act of 1890, commonly called the Sherman Act provided for the purchase of from two and one-half to four and one-half million ounces of silver per month, to be coined, at the rate of two million ounces per month, into standard dollars, until July 1st, 1891, after which there should be coined only such an amount as might be needed for the redemption of the treasury notes. The repeal of the purchasing clause of this Act relieves us of the necessity of continuing this suicidal policy, so far as monthly purchase goes, and leads us to hope that the dearly bought lesson of the past may not soon be forgotten.

The law of to-day, then, requires the Treasurer to coin the silver bullion only in such quantities as is required to redeem the treasury notes that may be presented; but, in the distress of the recent past the attempt was made to coin what is called the seigniorage, that is, the profit which the Government makes between what the silver costs and what it goes for after it is coined.

To illustrate: An ounce of silver, or *four hundred and eighty grains*, is worth, say, *fifty cents*,—the Treasurer pays that for it, in the coin certificates to which I have referred. He proceeds to coin it, and pressing *three hundred and seventy-*

one grain, with necessary alloy, into a convenient shape, he stamps upon it the words "One Dollar," and the Statute declares you must accept it as a *hundred cents*.

It is no better when you get it than it was when your neighbor sold it; it simply bears the stamp of the Government in attestation of its weight and fineness; and yet what costs but fifty cents is forced upon the people as worth one dollar and twenty-nine cents. This tribute to Caesar is called seigniorage. The law provides that *when the bullion is coined*, this seigniorage, or saving, or gain, or whatever pleasing name may be given it, shall accrue to the Government and also be coined. The "seigniorage bill" was an attempt to authorize the coinage of this book-keeper's gain *before the bullion* was coined; an assumption that the bullion had been coined and the profit made, although in fact the *actual loss* on that very bullion had been *many millions of dollars*; an attempt to inject a vast amount of cheap dollars into an already distressed financial system, while the certificates issued in payment of this depreciated bullion, stood, as I have said, at the door of the Treasury, sword in hand, demanding gold. Fortunately for us, that monstrosity lies buried in the ashes of the hopes of its progenitors, stabbed to the death by the stiletto of a courageous veto. An attempt has been made to resurrect it, but I hope and believe it is buried beyond the reach even of the last trump.

Temporizing with silver has cost this Nation untold millions of dollars. Every compromise has brought new dangers,—every concession has been followed by new demands, yet more extortionate. But the battle now is fairly on. I hope this question may now cease to be the shuttle-cock of politics, and that from this time forth the friends of honest money will be found standing shoulder to shoulder, neither faltering nor swerving, neither buying nor selling, no quarter and no compromise the watchword, the only terms of settlement "Uneconditional surrender."

And now, gentlemen, I come to the question of Bank notes; and if, by way of digression, I reply to some of the unfair criticisms which have been made upon National Banks, it will be because I believe their claim upon your gratitude and your friendship warrants it.

I presume no class of corporations has been assailed with more bitterness, more intense malice, or more unexplainable and inexcusable stupidity than the National Banks.

Now the essential cause of the attack upon National Banks is because of their authority to issue circulating notes, based upon Government bonds.

But, gentlemen, whence came this power, and why?

Whose plan was it in the beginning, and what was the situation which made necessary the scheme?

Why, gentlemen, it originated in the brain of Secretary Chase, and its *chief* purpose was to induce banks to purchase the bonds of the Government, and so furnish means for carrying on the war. It was not a creature of the banks. The tax upon State issues was not levied for the purpose of preventing such issues because of the evils inherent therein (*although that would have been sufficient cause*), but to make *almost compulsory* the issuing of National Bank bills, and, as a *pre-requisite thereto*, the purchase of Government bonds.

True, it became, for a time, a profitable measure for the banks, as of right it should, but of *far greater benefit* was it to the Government, in its day of peril. Banks are not animate things. They are simply voluntary associations of the people. The 3,756 National Banks in operation represent 287,842 shareholders. Have not these people the same interest in our common welfare as have all the others? Do you object to their making a reasonable profit in their business transactions?

Mr. President, I pay grateful homage to the gallant army of noble men who threw their lives into the hell of battle that this Government might endure. Theirs was the supreme sacrifice; theirs be always the crowning glory. But I remem-

ber, also, those others, who, if not where the fight was thickest, yet honorably and well performed a glorious part in that great struggle. The oil upon the axle is as necessary to the tide of travel as the steam within the engine; the agencies of peace are needful also in time of war. The action of the banks in purchasing the bonds as they did, *when* they did, was as patriotic as it was financially wise. It furnished the sinews of war; *it aided in establishing national credit*; it rooted out the evils of irresponsible issues and gave to our people the *best currency any country ever had. Age, the best.* I say it without equivocation, or reservation, or fear of intelligent contradiction. It matters not where you go, east, west, north or south, in every civilized nation on the Globe, the bill issued by any National Bank in the State of Maine exchanges without question, and at the minimum rate of exchange.

Think of it, gentlemen. A system which has supplied our people with this almost perfect currency, to the enormous amount of eighteen hundred millions of dollars, without loss to holders of a single farthing; whose representatives in every day of trial have borne the test of supreme patriotism and which have paid into the Common Treasury, in taxes and charges, the stupendous sum of one hundred and forty-five millions of dollars, of which the *tax on circulation alone* has amounted to *more than seventy-six millions of dollars.* Change? Yes, gentlemen, let us have a change. Let us strike off the shackles which encumber it; let us wipe out the inequalities which burden it; let us recognize the justice of its claims for relief; let us repeal the restrictive and burdensome enactments which its birth-day conservatism demanded, and give it the freedom justly due it and due the people.

Is there a man within hearing of my voice who believes it wise, or just, for the Government to hold one hundred and twenty to forty dollars, in value, of the best securities in the world, as a guaranty for every ninety dollars which a bank may promise to pay? Does it serve any good purpose to look

up twenty-five per cent. of every bank's capital in enforced idleness?

And yet that is the result of the requirements of existing law.

A moment's calculation will show you that it almost, if not quite, prohibits the possibility of reasonable profit; and banks, as well as men, cannot work for glory alone.

I make no criticism upon the law for the time, and under the conditions, in which it was framed; but *I do say that the time has come when this restriction should be removed and the banks permitted to issue up to par of their bonds.* The National Banks of this country, with a capital of six hundred and seventy-two millions, have outstanding but one hundred and seventy-two millions of circulation. The National Banks of Maine, with eleven millions of capital, have only four millions of circulation. During the past twenty years while the National Bank capital has *increased* two hundred millions, the circulation has *decreased* almost as much. The restriction to which I have alluded is a potent cause of this decline.

Another reason is excessive taxation. Upon this limited circulation is levied a tax which, although much less than formerly, is still a trifle more than one per cent. annually, to say nothing of the other charges, which aggregate quite a percentage. This also should be changed. The tax should be reduced at least one-half, and indeed a tax of one-fourth of one per cent. would be more nearly just.

People talk of the non-elasticity of our present currency, as if elasticity was the great desideratum in a currency system. I grant it is a desirable feature; but that word has been rolled under the tongue of so many wild-eyed "financiers" (as a sweet morsel), regardless of how it shall be obtained, that I have become almost sick of its sound.

Tired of the old forms of attack they now beseech the law-making power to abolish the national banking system, because its currency is not "elastic." *Better, by far, to apply the*

pruning knife to some of its "suckers." The existing law *prevents* elasticity by declaring that not more than three millions of dollars shall be retired in any one month, and that no bank which has retired a part of its circulation shall increase it again within a period of six months.

Repeal *this* senseless restriction also. Cast it to the dogs. It only serves those cranks who cry that without it the banks would make a scarcity, or plethora of money, at will, and make, or break, the commercial world at their whim. Such people have as little conception of the interdependence of the banking interests and the rest of the commercial world, as the Hindu Brahmin has of the Christian God.

"Away with the system, because not elastic," they say, and then they hold fast to whatever will *prohibit* elasticity.

I am, perhaps, approaching dangerous ground, but I desire to call your attention to some of the propositions for changing our currency system, now, and during the past few months before the people, with which our legislators have been wrestling, and which will, doubtless, be again debated at the next session of Congress.

I am aware that some of the ideas have been endorsed by financiers the latchet of whose shoes I am, perhaps, unworthy to unloose; yet you have not invited me here as you might bring in a phonograph, to repeat the words which have been indented in my plastic mould, but rather, to express my own views, and these you will take for what they may be worth. The detail of the plans, as to place of redemption, taxes, etc., I shall not take up; the basis for circulation is the essential thing.

The proposition whose endorsers would naturally give it the priority of claim upon your consideration is the "Baltimore Plan," presented at the meeting of the American Banker's Association in Baltimore last fall.

This proposes that the law requiring a deposit of bonds as a basis of circulation shall be repealed, that banks be per-

mitted to issue circulation to the extent of fifty per cent. of their paid up capital, that the bills be a first lien upon the entire assets of the bank,—including stockholders' liability,—that a tax be levied upon the circulation as a "guarantee fund" until the amount of such tax aggregates five per cent. of circulation, and that in case of failure of a bank and its final inability to take care of its bills, and the exhaustion of the guarantee fund, all the other banks shall be taxed to make up the deficiency. It further provides that it be allowable to issue additional circulation to the extent of twenty-five per cent. of capital whenever emergency may arise, this additional issue to be subject to a heavy tax, so that the bank issuing would retire it as soon as the emergency ceased to exist.

This in brief is the plan, and, as I have said, it is supported by some able men. It does not commend itself to my mind as worthy to supplant our present system. Indeed with such modifications as I have suggested and shall suggest, financial men would not be considering a change. My first objection to the plan is to its chief feature, to wit: The basis of circulation. While this circulation based, and constituting a first lien, upon the entire assets of the bank might well be considered safe, and would be, guarded, as is proposed, by a five per cent. guarantee fund and the power to tax, still I am strongly of the opinion that in time of trouble this provision would be a serious menace, if indeed, it did not *produce* and precipitate disaster; for the following reasons:

The fever turn of 1893, while it had various exciting causes, was largely the result of lack of confidence. The great wave of disaster which swept over our Western banks could not possibly have been caused by decline in values alone. These had been steady and rapid, it is true; grave economic difficulties had arisen and had caused great unrest in the minds of our people; yet the banks had accommodated themselves to the situation, and were in a fair way to weather the storm. But when, suddenly, the people lost confidence, when wild

fear seized upon them, when reason and common sense abdicated the throne, and blind, unreasoning fury reigned instead, there followed the inevitable result of such asinine stupidity. Bank after bank suspended. Distrust and disappointment were everywhere present. The old story was repeated:—if men *could* have their money, they didn't want it, but if they *couldn't* have it, they wanted it badly. The *people* failed; failed to be just, failed to be reasonable, failed to exercise common sense.

The money which was withdrawn from the banks was withdrawn, also, from circulation. It was hid away in old stocking legs and between feather beds, because reason had given place to fear, confidence to distrust. Now in all this exhibition, the *bill-holder* had played no part. Let come what would, he knew *his* holding was absolutely good; and the *depositor* knew, also, that the bills could not possibly operate to reduce the value of *his* claim upon the assets of the bank.

But I am of the opinion that if the law proposed by the Baltimore plan should be enacted, the fact that there existed a lien upon the entire assets and stockholders' liability, *prior to the deposits*, to the extent of seventy-five per cent. of the capital, would be a most fruitful cause of distrust, and in many places precipitate a run at the first note of warning, uttered by some shallow-pated agitator.

The *bills* would be good, but the *depositors* would be robbed of a security to which I think they are *entitled*, and which, for the very bank's sake, they ought to have.

Another objectionable feature of the plan is, that in case the assets and stockholders' liability should not be sufficient to redeem the bills, the remaining banks should be taxed to make them good.

Why not enforce all the merchants in this city to guarantee the indebtedness of each individual one? Why not apply the rule broadly, and enact that the diligent and honest shall pay the debts of the slothful and dishonest? I see no good

reason for so doing. I can see no equity in holding a conservative, honestly managed bank, in Maine, liable for the doings of a band of "promoters" in the "wild and woolly west," or a wide-awake, pushing, yet prudently managed bank in the west, liable for the old-fogysm and dry-rot of some Eastern heilloom.

It is because of these reasons that I do not like the Baltimore plan.

The next proposition to which I beg to call your attention is the "Carlisle Plan," offered by Secretary Carlisle (or one of his plans). I shall take the original plan, because it may be supposed to voice his own ideas. Although this had the indorsement of the President in the beginning, he subsequently withdrew his support. This proposes to repeal the bond deposit clause, to allow banks to issue circulation to the amount of seventy-five per cent. of capital, upon a deposit of United States legal tender notes, (including Treasury notes issued under the Act of 1890), to the amount of thirty per cent. of capital, that no bills shall be issued of a lower denomination than ten dollars, that the bills be a first lien upon the assets of issuing bank, and other banks be liable to a pro rata assessment upon their circulation to make good any deficiency, and that the Treasurer may, in his discretion, out of any money in the Treasury, redeem and retire the legal tenders, up to seventy per cent. of bank circulation taken out under this act. It also provides that State banks may be exempt from United States tax on circulation when it shows that it has not had outstanding circulation in excess of seventy-five per cent. of paid up capital, that its notes are a first lien upon the assets (including stockholders' liability to amount of ownership), and that it has a deposit, with proper State officer, of thirty per cent. of circulation, in legal tenders.

You will notice that the "guarantee fund" of five per cent. is not exacted of State banks. You also bear in mind that it is a matter of common history that "paid-up-capital" of State

banks has often consisted of corner lots in Boomtown, of stock in branch houses and in development companies, in hotels and opera houses, in town-sites and ranches, in furnaces and iron-mines, of Stockholders' notes which for most excellent reasons were never before found in the list of any bank's loan, and of red-dogs and wild-cuts of every description and of no conceivable value. It is needless for me to recount the difficulties and losses of old State bank days. Many of you gentlemen learned them in the school of experience. Remembering all these things, I cannot understand how men can favor the issuing of notes based upon such securities as I have mentioned. No reason has ever appeared to my mind sufficient to entitle it to serious consideration. I see not one sound argument in its favor, but a whole train of difficulties and disasters attendant upon it. State bank issues belong to primitive times. They have been trampled in the dust 'neath the wheels of progress. To revive them would be to refuse to be guided by the lamp of experience. Happily no such calamity is likely to befall us at present.

The proposition to prohibit the issue of bills of a smaller denomination than ten dollars is a sop to the silver interests; an attempt to force an undesirable kind of money onto the people; to *fix* upon us, in the form of silver, the two hundred and fifty millions in five dollar bills, and all other small bills, now in circulation.

Can any severer criticism be made upon any money, than that such drastic measures have to be resorted to, to force it into circulation? Need another word be said in condemnation?

The proposition to require a deposit of legal tenders possesses this much merit,—that it relieves the Treasury from menace, to that extent,—*but it perpetuates the evil of their existence*, even if in a less harmful position.

The same objectionable feature of assessment is presented in this as in the Baltimore plan.

There are numerous other bills on the Congressional docket,

or in the hands of Congressional theorists, many of which are positively vicious. Nearly all contain some of the provisions to which I have referred, and are therefore not safe to enact, but my limit of time will prevent me from taking them up.

I have, thus, in a general way, discussed the situation, and you naturally ask, "What do you suggest?" To which I answer as follows: First, enact that the word "coin" in all United States bonds shall be held to mean "gold." Issue five hundred millions of long time three per cent. bonds, offer them to the people as a popular loan, and with the proceeds take up and cancel the legal-tenders and the treasury notes. "What," somebody says, "incure an annual interest charge of fifteen millions a year, when the same amount can be floated without interest?" Yes, thirty millions if necessary. It costs something to be honest. It costs something to live and pay one's debts. This interest charge is a bagatelle compared with the stupendous loss which this daily menace has caused this country. Using these bonds as a basis for circulation permit the banks to issue up to par of the bonds; allow the banks to increase or decrease their circulation at will, the Department keeping on hand sufficient blank notes to meet a call without delay; decrease the tax on circulation to not exceeding one-fourth of one per cent. per annum; maintain the provisions of the present law as to redemption of notes; make the notes a legal-tender for all debts, public and private,—unless, perhaps duties on imports, for which it might be necessary to require gold, with which to meet gold-bearing obligations,—and available to banks as part of home reserve. This would take the Government out of the banking business and leave it in the position of stakeholder, merely,—a guarantor of good faith and absolute justice between payer and payee.

It may be said that sooner or later the Government will be able to pay its bonds, entirely, and then we *must* have a change.

Well, gentlemen, it will be time to cross that bridge when

we come to it. With the marvelous possibilities in the future of this country—with the improvement of its harbors, with the development of its great natural water-ways, with the construction of its inter-oceanic canal, with the building of great water highways from Lakes to Gulf and from river to sea, with the construction of a worthy navy and suitable coast defences, with the erection of stately public edifices and the acquisition, it may be, of new and valuable territory,—with all the splendid visions of prophecy before our eyes,—we need not doubt, or fear, the creation of legitimate and wisely-contracted debt. It is the debt which every business man makes when he borrows, that he may increase his own. It is the wise policy of him who had the ten talents.

I have no desire to see this Government out of debt, for, to me, this would mean stagnation.

Gentlemen, these matters are of vital interest to every one of us. They affect the integrity as well as the property of every person in our domain. They are entitled to your thoughtful consideration. Whatever proposition may be made to surrender, whatever specious plea may be sung to your listening ears, I hope and expect, that this Association, representing the business men and intelligence of the State of Maine, will declare itself unreservedly in favor of the maintenance of the financial integrity of this Government: will insist that there can be but one code of honor for nation and individual; will demand that wherever floats the stars and stripes there shall be but *one standard of honor or of value*, and that every dollar which bears the sign-manual of the United States shall be the equal of every other dollar, whether issued in "The Land of the Free" or in the most favored Nation of the Eastern Hemisphere.

3250

END OF
TITLE